

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

QUARTERLY TREASURY MANAGEMENT AND STRATEGY REPORT

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To provide a review of the treasury strategy approved each year by council.
- 1.2 To report on the treasury management performance between April and August 2015. The report explains how the strategy has been implemented to date, and the response to changing conditions in financial markets.

2. BACKGROUND INFORMATION

2.1 The investment strategy for 2015/2016 aims to reduce risk by

- Investing for periods up to twelve months
- Only investing directly in UK institutions with a minimum of an adequate credit rating or equivalent
- Applying a maximum investment limit of £7m or lower for counter-parties (except the council's own bankers)
- Applying a maximum limit to financial groups rather than individual institutions
- Investing in a wider range of institutions through Money Market Funds.

2.2 The borrowing strategy for 2015/2016 aims to

- Resume borrowing for capital investment in 2015/16
- Track short-and long-term interest rates to determine the best timing of that borrowing
- Consider borrowing from a range of institutions to ensure the best value for money
- Generally borrow only to support the capital programme
- Borrow for shorter periods if cash flow requires.

2.3 The council's budget was framed against the state of financial markets at the time of approval and prospects for the year ahead. At its meeting ending on 5 August 2015, the Bank of England's Monetary Policy

Committee (MPC) voted by a majority of 8–1 to maintain the Bank Rate at 0.5%. When the Bank Rate does begin to rise, it is expected to do so more gradually and to a lower level than in recent cycles.

- 2.4 The budget assumes a projected average cost of future external borrowing of 4% at the point when internal borrowing is no longer an option. Existing borrowing is based on a mix of borrowing terms. Both are used in setting a range of prudential indicators which are monitored against Council targets to ensure the capital investment programme remains affordable, prudent and is sustainable.

3. **OPTIONS FOR CONSIDERATION**

- 3.1 The report considers the implementation of an agreed strategy. There are therefore no options to consider.

4. **ANALYSIS OF OPTIONS**

Investment strategy

- 4.1 Generally the economic position remains positive. In its latest economic projections, the MPC projects UK-weighted world demand to expand at a moderate pace. The support to UK exports from steady global demand growth is expected to be counterbalanced, however, by the effect of the past appreciation of sterling. Risks to global growth are judged to be skewed moderately to the downside reflecting, for example, risks to activity in the euro area and China.
- 4.2 The focus of cash management remains to maximise security and liquidity. Cash is currently being held in a range of call accounts with UK banks or, on short (6 month maximum) deposit with banks and building societies, who maintain an adequate credit.
- 4.3 In addition to this investments have been placed with Money Market funds meeting the council's investment criteria. These offer more competitive rates than many of the bank and building society counterparties while diversifying credit and interest rate risk.
- 4.4 Investments realised during the period were returned with interest or reinvested. At the end of August outstanding investments were £10.9m, including £5.9m with the council's own bankers (see Appendix 1).
- 4.5 The continuing low base rate means returns on investments continue to be very modest, an average of 0.52% has been achieved in 2015/16 to date. This year's target of £120k (increased from £117k) is unlikely to be achieved with the current balances available for investment and rates offered (£46k achieved).

Borrowing strategy

- 4.6 Scheduled debt repayments continue and by the end of September 2015 further repayments of principal of £0.5m will reduce debt outstanding to

£105.3m, with this reducing still further to £103.4m by the end of March 2016.

- 4.7 The current funding requirement for the 2015/16 capital programme includes an assumption of £25m of internal funding. It is expected that a proportion of this would be met from external borrowing. In view of the council's existing cash balances and the potential for programme slippage it is unlikely that full borrowing will be necessary.
- 4.8 The requirement for additional borrowing continues to be monitored and in addition, to ensure that borrowing is undertaken at the optimum time to gain the most competitive rate, monitoring of the current available lending rates is also undertaken.
- 4.9 Key performance indicators have been updated following the rephasing of the capital programme. These are shown at Appendix 2.

5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)

- 5.1 The projected revenue costs of financing debt are within budget.
- 5.2 There has been an adjustment to the capital programme for 2015/16 largely due to a rephasing of schemes spending and changes to programme financing. This is reflected in Appendix 2.
- 5.3 The agreed treasury strategy primarily aims to minimise risk to the councils' finances from any further instability in financial markets while seeking to achieve a favourable return from investment income.

6. OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)

- 6.1 Not applicable

7. OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED

- 7.1 Not applicable.

8. RECOMMENDATIONS

- 8.1 That the Audit Committee consider the assurance provided by this report on the effectiveness of arrangements for treasury management, and;
- 8.2 That the Audit Committee notes the treasury management performance for the period.

DIRECTOR OF POLICY & RESOURCES

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Background Papers used in the preparation of this report

CIPFA – Treasury Management in the Public Services. Code of Practice and Cross-Sectoral Guidance Notes: 2011 edition.

The Prudential Code for Capital Financing in Local Authorities 2011 edition.

Bank of England Inflation Report August 2015

		APPENDIX 1	
<u>INVESTMENT POSITION AS AT 31 AUGUST 2015</u>			
CALL ACCOUNT BALANCES		£m	
	Barclays Bank plc Flexible Interest Bearing Current Account	5.9	On call
	Bank of Scotland Plc Call Account	0	On call
	HSBC Bank Plc Call Account	0	On call
	National Westminster Bank Plc Corporate Cash Manager Plus Account	0	On call
OTHER INVESTMENTS			
	Bank of Scotland 32 Day Notice Account	3.0	Repayment at term
	Leeds Building Society	2.0	Repayment at term
	CCLA Public Sector Deposit Fund	0	Money Market Fund
TOTAL		10.9	
<u>In addition to those specified above, counterparties with whom investments have been placed in the 2015/16 from 1st April up until 31st August 2015 are as follows :</u>			
	None		

APPROVED PRUDENTIAL GUIDELINE INDICATORS		APPENDIX 2	
		2015/16	2015/16
		Budget (Feb 2015)	Revised
		£m	£m
(i)	Estimates of capital expenditure	57.7	71.8
(ii)	General Fund ratio of financing costs to the net revenue stream % (Based on Prudential Code 2011)	% 9.7	% 9.7
(iii)	an estimate of the capital financing requirement	£m 190.2	£m 190.2
(iv)	the authorised limit for external debt borrowing	£m 245.0	no change
	other long term liabilities	5.0	
	total	250.0	
(v)	the operational boundary for external debt borrowing	£m 193.0	no change
	other long term liabilities	2.0	
	total	195.0	
(vi)	upper limit for fixed rate exposure	% 100.0	no change
(vii)	upper limit for variable rate exposure	20.0	no change
(viii)	upper and lower limits for maturity structure of borrowing		
	UPPER LIMIT		
	under 12 months	15.0	
	12 months and within 24 months	15.0	
	24 months and within 5 years	50.0	no change
	5 years and within 10 years	75.0	
	10 years and above	90.0	
	LOWER LIMIT		
	10 years and above	25.0	no change
(ix)	total principal sums invested for periods longer than 364 days	£000 0	£000 0
	(i). Capital Programme expenditure has changed for rephasing of spending and additional grant contributions		